COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

KeySpan Energy Delivery New England	)	D.T.E. 05-35

INITIAL BRIEF OF KEYSPAN ENERGY DELIVERY NEW ENGLAND

I. INTRODUCTION

On April 29, 2005, Boston Gas Company d/b/a KeySpan Energy Delivery New England ("KeySpan" or the "Company") filed for approval by the Department of Telecommunications and Energy (the "Department") a firm transportation agreement with Tennessee Gas Pipeline Company ("Tennessee") with supporting testimony. On July 7, 2005, the Company submitted the supplemental pre-filed testimony of Theodore E. Poe, Jr. and an amendment to the proposed arrangement between KeySpan and Tennessee.

The proposed arrangement between the Company and Tennessee encompasses the following components: Tennessee will provide firm transportation service up to a maximum daily transportation quantity ("MDTQ") of 112,700 MMBtus/day for a primary term of twenty (20) years subject to KeySpan's right to decrease the MDTQ by up to (i) 25% effective eleven years and five months following the in-service date (ii) 50% effective thirteen years following the in-service date and (iii) 100% effective fifteen years following the in-service date. The primary receipt points will be located in the producing regions near the Gulf of Mexico in Tennessee zones 0 and 1. The primary delivery points will be various interconnections of the Company's system with the

Tennessee pipeline as well as the interconnect between Tennessee and the Algonquin Gas Transmission system in Mendon, MA. Service will commence on the later of November 1, 2007, or the project's in-service date. Service will be provided at a fixed, negotiated rate for the term of the Agreement.

In accordance with published notice, the Department held a public hearing and procedural conference on July 14, 2005. The Department then held an evidentiary hearing on October 5, 2005. The Attorney General of the Commonwealth of Massachusetts (the "Attorney General") intervened in the proceeding and Berkshire Gas Company and Tennessee were granted Limited participant status by the Department.

At the evidentiary hearing the Company presented two witnesses: Elizabeth D. Arangio, Director of Gas Supply Planning who provided an overview of the proposed arrangements and evaluated the Company's commitment in terms of cost and non-cost factors, and Theodore E. Poe, Jr. Manager of Energy Planning for KeySpan Energy Delivery New England who provided an analysis of the Company's design-day and design-season capacity needs. The record in this case consists of 39 exhibits including the Company's pre-filed testimony and responses to information requests issued by the Department and the Attorney General.

In accordance with the procedural schedule established by the Hearing Officer, the Company offers this initial brief in support of the Company's request for approval of the transportation contract between KeySpan and Tennessee. As discussed herein, the record in this proceeding demonstrates that the proposed agreement is consistent with KeySpan's portfolio objectives and compare favorably to the range of alternatives reasonably available to the Company and its customers, and therefore meets the

Department's standard as set forth in Commonwealth Gas Company, D.P.U. 94-17-A (1996).[1]

II. STANDARD OF REVIEW

In evaluating a gas utility's resource options for the acquisition of commodity resources as well as for the acquisition of capacity under G.L. c. 164, §94A, the Department examines whether the acquisition of the resource is consistent with the public interest. Bay State Gas Company, D.T.E. 98-79 at 1 (1998), Commonwealth Gas Company, D.P.U./D.T.E. 94-174-A at 27 (1996). In order to demonstrate that the proposed acquisition of a resource that provides commodity and/or incremental resources is consistent with the public interest, a local distribution company ("LDC") must show that, at the time of the acquisition or contract renegotiation, the acquisition (1) is consistent with the Company's portfolio objectives, and (2) compares favorably to the range of alternative options reasonably available to the Company and its customers, including releasing capacity to customers migrating to transportation. Id.

In establishing that a resource is consistent with the Company's portfolio objectives, the Company may refer to portfolio objectives established in a recently approved resource plan or in a recent review of supply contracts under G.L. c. 164, §94A, or may describe its objectives in the filing accompanying the proposed resource. Id. In comparing the proposed resource acquisition to current market offerings, the Department

[1] See, eg., KeySpan Energy Delivery New England, D.T.E. 02-18 (2002); (incremental capacity acquisition on Algonquin's Hubline project); KeySpan Energy Delivery New England, D.T.E. 04-29 (2004) (replacement of Boundary Gas, Inc. long term commodity supply agreements with agreements with

examines the relevant price and non-price attributes of each contract to ensure a contribution to the strength of the overall supply portfolio. Id. at 28. As part of the review of relevant price and non-price attributes, the Department considers whether the pricing terms are competitive with those for the broad range of capacity, storage and commodity options that were available to the LDC at the time of the acquisition, as well as with those opportunities that were available to other LDCs in the region. Id. In addition, the Department determines whether the acquisition satisfies the LDC's non-price objective including, but not limited to, flexibility of nominations and reliability and diversity of supplies. Id. at 29.

III. DISCUSSION

On October 15, 2004, Tennessee announced a binding open season for its proposed Northeast ConneXion New England project. The project was initially designed to increase the capacity on Tennessee's system to the New England region by 100,000 dekatherms of natural gas per day (Dth/d) but was increased to 136,300 Dth/d due to strong customer demand during the open season. Tennessee plans to install additional compression along the mainline in New York and Massachusetts to provide the project's service. Supplies for this long-haul capacity will originate in the Texas and Louisiana areas. Tennessee plans on making the additional capacity generated by this expansion available in 2007/2008 (Exh. NGC-1 at 4). KeySpan submitted a bid and was awarded 100,000 Dth/d of capacity which was subsequently increased to 112,700 Dth/d (Exh.

BP Canada and Nexen Marketing); KeySpan Energy Delivery New England, D.T.E 05-8 (2005) (renewal of expiring Distrigas contracts).

NGC-1 at 4; TEP-4). On February 28, 2005, KeySpan and Tennessee executed a precedent agreement to give effect to the arrangement between KeySpan and Tennessee. (See Exhibit KEDNE-1). Prior to the in-service date, the precedent agreement will be replaced by a firm transportation agreement. As discussed below, the proposed agreement is consistent with the Company's portfolio objectives and compares favorably to the range of resource alternatives available to the Company, and therefore, the Department should approved the proposed agreement.

A. The Tennessee Agreement Is Consistent With the Portfolio Objectives Set Forth in the Most Recently Approved Supply Plan for KeySpan

At pages 115-118 of its Long Range Resource and Requirements Plan (the "Supply Plan") approved by the Department in KeySpan Energy Delivery New England, D.T.E. 01-105 (2003), the Company indicated that until the Department makes a determination that the upstream capacity market is sufficiently competitive to warrant a modification of its obligation to procure and plan for the needs of its customers, KeySpan would protect its rights to needed resources by entering into contracts for extended time periods to maintain flexibility, diversity and reliability consistent with least-cost principles while balancing the circumstances of the evolving marketplace. Subsequently, in Gas Unbundling, D.T.E 04-1 at pp. 26; 52-53 (2005), the Department concluded that the upstream capacity market for New England is not yet workably competitive and directed LDCs to continue to plan for and procure upstream pipeline capacity to serve firm customers (Exh. DTE 1-1).

In order to ensure that the Company's resource portfolio encompasses adequate

resources to meet customer requirements under design weather conditions, KeySpan evaluates: (1) the peak-day pipeline deliverability available to the Company at its city gates, which will be used in combination with on-system LNG and propane vaporization capabilities to ensure gas deliveries on the peak-day; and (2) the amount of gas supply available to the Company over the peak-season, which is provided through a combination of pipeline deliveries and on-system liquid inventories.

Using this approach, a city gate capacity shortfall is signaled where the analysis shows that: (1) on the design day, there is an insufficient amount of city gate capacity to ensure the level of throughput needed to meet sendout requirements in combination with on-system facilities; and (2) over the design season, there is a gap between the level of city gate deliverability available to provide gas supply to the system and the level of on-system inventories available to supply customers. As described below, KeySpan's analysis indicates that both of these circumstances exist within the Company's resource portfolio beginning in the 2005/06 heating season.

In support of its request for approval of the Tennessee Agreement, the Company provided the Department with an analysis of peak-day and peak-season needs for the KeySpan Massachusetts service territory (Exh. TEP -1 at Schedule TEP-2). This analysis is consistent with, but not dependent upon, the forecast that KeySpan provided to the Department in its last Long Range Resource and Requirements Plan approved in KeySpan Energy Delivery New England, D.T.E. 01-105 (2003) (the "Supply Plan").[2]

[2] In the Supply Plan, the Company provided the Department with a forecast of sendout requirements under design weather conditions for the five-year period from November 1, 2001 through October 31, 2006 (Exh. TEP-1 at 4). However, because service under the Tennessee agreement will not commence until 2007/08, for purposes of evaluating the need for the Tennessee agreement, the Company relied on an updated forecast of sendout requirements for the period November 1, 2004 through October 31, 2009 that was prepared using the same methodology approved by the Department in the Supply Plan (Exh. TEP-1 at 5).

This updated forecast demonstrated that KeySpan has a need for incremental peak-day deliverability totaling 9,000 MMBtu/day beginning in 2005/06 increasing to 121,000 MMBtu/day by 2008/09.[3] Similarly, the updated forecast demonstrated that KeySpan has a need for incremental peak- season deliverability totaling 752 BBtu beginning in 2005/06 and growing to 5,459 BBtu in 2008/09. Thus, the Company concluded that incremental capacity entitlements beyond what the Company currently maintains in its portfolio of resources are needed (Exh. TEP -1 at 8).

Accordingly, the record demonstrates that the proposed arrangement with Tennessee contributes to the Company's portfolio objective of maintaining a reliable portfolio of resources to meet customer sendout requirements.

B. The Tennessee Transportation Agreement Compares Favorably to the Range of Alternatives Reasonably Available to the Company and its Customers

The record in this proceeding demonstrates that the Tennessee agreement compares favorably to the range of alternatives reasonably available to the Company and its customers. Currently, the Company meets its design-year and design-day sendout requirements through a combination of: (1) domestic transportation capacity and underground-storage contracts; (2) Canadian transportation capacity contracts; (3) supplemental resources such as on-system LNG and propane facilities; and (4) other market-area purchases and short-term arrangements over the peak season (referred to as "Other Purchased Resources").With respect to transportation capacity, the Company

[3] Available resources are compared to the forecasted sendout requirements on the design-day, based on three assumptions: (1) that all resources within the portfolio are used interchangeably to meet KeySpan customer requirements subject to operational and contractual constraints; (2) that any portfolio resources

holds entitlements to 704,445 MMBtus/day of primary firm capacity from the producing and market areas within the United States and Canada, as well as the underground storage fields in Pennsylvania and New York. The Company's city gate capacity entitlements include 35,000 MMBtus/day of firm transportation capacity on the Algonquin pipeline with a primary receipt point in Providence, Rhode Island (Exh. NGC-1 at 6-7). Given the physical location of the Company's distribution system in the region's interstate pipeline infrastructure, when looking at procuring additional pipeline resources to meet city gate requirements, the Company must consider incremental capacity that can ultimately be delivered to its distribution system served by Tennessee or Algonquin Gas Transmission Company ("Algonquin") (Id. At 9-10).

To assess the reasonableness of the cost of the Tennessee capacity, the Company first compared the cost of the ConneXion Project to the cost of existing delivery routes, notwithstanding the fact that these alternatives are not actually available to provide incremental capacity to the Company at this time. The Company evaluated cost in two ways. First, the Company evaluated the cost of the Tennessee capacity in relation to other existing delivery routes, including an approximation of the commodity cost that would be associated with each delivery alternative. Second, the Company evaluated the cost of the Tennessee capacity in relation to other existing delivery routes through a comparison of the demand costs associated with each capacity resource. This two-pronged analysis demonstrates that, in addition to being the only available alternative to meet the Company's needs, the arrangement with Tennessee represents the lowest cost option, and therefore, is in the best interest of customers.

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with contract terms expiring during the forecast period will be renewed and (3) that peak season resources

With respect to the cost comparison, including the associated gas supply, the Company started from the basis that pipeline gas supplies used to serve customers in Massachusetts are produced in two principal geographic locations: (1) the Gulf of Mexico; and (2) Canada. From these two production areas, there is a finite set of delivery routes to the Company's city gates. In addition to pipeline gas supply, the Company is able to secure gas supply in the form of LNG liquid from Distrigas.

Based on these parameters, the Company computed the costs associated with physical supply routes that could serve as potential alternatives to the Tennessee arrangement.

These delivery routes are as follows:

> (1) the purchase of incremental capacity on Texas Eastern Transmission Company ("Texas Eastern") from the Gulf with delivery capability to Algonquin, as well as the incremental capacity on the Algonquin system for delivery to Mendon where supplies could be transferred onto the Tennessee system and transported on Tennessee to the Company's city gates;
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> (2) the purchase of incremental capacity on the Maritimes system from Sable Island, where supplies could be transported to the Tennessee system at Dracut, and then transported on the Tennessee system to the Company's city gates; and
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> (3) the purchase of incremental capacity on the Tennessee system where vaporized LNG service from Distrigas at Everett, Massachusetts could be delivered to the Company's Tennessee gate stations.

As stated above, all of these delivery routes assume that adequate incremental capacity is available to the Company on the interstate pipeline system, which was not the case. (Exh. NGC-1 at 10-12)

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will be supplemented winter liquid refills (Exh. TEP-1 at 8)

As documented in Schedule NGC-5 to Exhibit NGC-1, in all cases, based on price, the ConneXion Project represents the least-cost approach. Thus, even if sufficient capacity were available to meet the Company's incremental needs, the cost of the Tennessee arrangement is less than any other delivery route.

Next, the company evaluated non-price factors associated with the proposed Tennessee agreement and determined that there are several favorable non-price attributes associated with the arrangement (Exh. NGC-1 at 16). First, the contract provides for primary firm delivery of incremental capacity to the region, in particular to the Company's distribution system, therefore enhancing the overall reliability of the regional infrastructure. Second, although the primary term of the agreement is twenty years, the Company has retained the option to reduce its commitment to Tennessee by 25% effective eleven years and five months following the in-service date, by 50% effective thirteen years following the in-service date and by 100% effective fifteen years following the in-service date. This flexibility guarantees long term access to relatively low-cost Tennessee pipeline capacity but provides the Company the ability to evaluate options other than Tennessee long-haul capacity should they become available in the future.[4] Third, incremental primary points in Tennessee's zone 0 and zone 1 will enhance the Company's access to supply developments in the Gulf area thereby adding diversity to the existing portfolio. Finally, with one of the primary delivery points being Mendon,

[4] There are a number of LNG projects in the proposed or initial stages of development that could be available and would serve as either a replacement or as a supplement to the Company's current portfolio of contracts. These projects are located either in the Northeast United States, in Maritimes Canada, or along the St. Lawrence River (Exh. DTE 1-6).

MA, the Company will have the ability to serve the Algonquin portion of its distribution system with incremental gulf coast supplies.

Accordingly, the record demonstrates that the proposed agreement with Tennessee compares favorably to the range of alternatives reasonably available to the Company and its customers and should be approved by the Department.

IV. CONCLUSION

As discussed above, the record in this proceeding shows that (1) the Company has provided a forecast of sendout requirements consistent with its Supply Plan which demonstrates a need for incremental capacity resources in order to continue to reliably meet its customer requirements; and (2) the proposed Tennessee agreement compares favorably with a range of reasonably available alternatives based on price and non-price factors. Therefore, the proposed Tennessee agreement represents a cost effective means for the Company to meets its ongoing service obligation to customers, is in the public interest and should be approved by the Department.

WHEREFORE, the Company respectfully request that the Department:

ORDER: That the Tennessee Precedent Agreements with Boston Gas Company is in the public interest and is approved

ORDER: Such other and further orders and approvals as may be necessary and appropriate.

Respectfully submitted,

KEYSPAN ENERGY DELIVERY NEW ENGLAND

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